

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 1787 - HB 1893

February 5, 2022

SUMMARY OF BILL: Exempts Tennessee National Guard military technicians and any part-time members of the Tennessee National Guard from the sales and use tax when purchasing a vehicle. Limits such exemption to one vehicle sold every five years.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – \$5,864,500
/FY22-23 and Subsequent Years

Decrease Local Revenue – Net Impact – \$275,900
/FY22-23 and Subsequent Years

Assumptions:

- According to the United States Department of Defense, there were 17,789 part-time members of the Tennessee National Guard as of September 2021.
- According to Kelley Blue Book, the average cost of a new car in December 2021 was \$47,077 and the average cost of a used car was \$28,205.
- It is estimated that 15 percent of members, or 2,668 (17,789 x 15%), will purchase a used car and that 5 percent, or 889 (17,789 x 5%) will purchase a new car.
- The total annual sales of new cars is estimated to be \$41,851,453 (889 x \$47,077), and the total annual sales of used cars is estimated to be \$75,250,940 (2,668 x \$28,205).
- Total annual sales of both new and used cars purchased by Tennessee National Guard part-time members are estimated to be \$117,102,393 (\$41,851,453 + \$75,250,940).
- It is assumed that all sales would involve a “trade in” vehicle; furthermore, the trade in value of a vehicle would be deducted from the taxable amount of the sale.
- It is estimated that the taxable base is discounted by 25 percent to account for the average trade-in value compared to the vehicle being purchased, therefore the total taxable base is estimated to be \$87,826,795 [$\$117,102,393 \times (1 - 0.25)$].
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The Tennessee single article tax on amounts over \$1,600, but under \$3,200, is effectively \$44 [$(\$3,200 - \$1,600) \times 2.75\%$ single article tax].
- The local tax rate is only applicable to the first \$1,600 of the sale, making the effective local option sales tax cap \$40 ($\$1,600 \times 2.5\%$).

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- The recurring decrease in state revenue is estimated to be \$6,082,015 $\{[(\$87,826,795 \times 7.0\%) - (\$87,826,795 \times 7.0\% \times 3.617\%)] + [(2,668 + 889) \times \$44]\}$.
- The recurring decrease in local revenues is estimated to be \$364,649 $\{[(\$87,826,795 \times 7.0\% \times 3.617\%)] + [(2,668 + 889) \times \$40]\}$.
- Fifty percent of tax savings, or \$3,223,332 $[(\$6,082,015 + \$364,649) / 2]$ will be spent in the economy on other sales-taxable goods and services.
- The recurring increase in state revenue is estimated to be \$217,472 $[(\$3,223,332 \times 7.0\%) - (\$3,223,332 \times 7.0\% \times 3.617\%)]$.
- The recurring increase in local revenue is estimated to be \$88,744 $[(\$3,223,332 \times 2.5\%) + (\$3,223,332 \times 7.0\% \times 3.617\%)]$.
- The net recurring decrease in state revenue is estimated to be \$5,864,543 $(\$6,082,015 - \$217,472)$ in FY22-23 and subsequent years.
- The net recurring decrease in local revenue is estimated to be \$275,905 $(\$364,649 - \$88,744)$ in FY22-23 and subsequent years.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista Lee Carsner, Executive Director

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